



OVER-INDEBTEDNESS IN GERMANY

RESULTS OF RESEARCH 2019

INCOME POVERTY AS A TRIGGER FOR OVER-INDEBTEDNESS RISING STEADILY.

For some time now, income poverty has been the most strongly increasing trigger of over-indebtedness. After the 2008 financial crisis, low incomes had still been the cause of over-indebtedness for only 2.5 percent of cases. Ten years later, this is already the case for 9.6 percent of consultations. Particularly in the case of a relatively low income, it is necessary to seek professional help as quickly as possible in the event of a financial bottleneck, which is due to their exces-

sively high risk of over-indebtedness. This is also reflected in the accrued interest and costs. In the case of insurance debts, mail order business and debt collection claims, on average at least one fifth of additional costs have to be added to the original claim. This could often be avoided. However, stigmatization and false pride prevent many people from admitting their situation.

THOSE WHO ARE POOR IN INCOME AND THUS AT RISK OF OVER-INDEBTEDNESS ARE ABOVE ALL THOSE WHO HAVE A POOR EDUCATION.

Despite excellent labour market conditions, those affected by a low level of education often find no or only precariously paid work. The number of temporary workers has been increasing for years. Even those who work part-time often are unable to meet ends meet, despite minimum wages. The gap between the rich and the poor is widening even faster at

the margins. Income dynamics has been most dramatical for the wealthiest class, whereas on the other hand per capita incomes of over-indebted people have not benefited noticeably from positive net wage developments. Between 2017 and 2018 they increased by only 11 Euro.

SINGLE PARENTS ARE EXPOSED TO A PARTICULARLY HIGH RISK OF OVER-INDEBTEDNESS.

A closer look at the poorest of poor people, who typically are also over-indebted, unfortunately reveals that children are a risk of over-indebtedness that increases with the number of children. The same applies to singles. They have no further household income to compensate for any special expenses

or income interruptions. On the contrary, couples without children have the lowest risk of ending up poor. Two household incomes and the lack of additional costs for children are a good protection against over-indebtedness.

INDIVIDUAL RECEIVABLES: BANK RECEIVABLES ARE HIGHEST.

Amounting to EUR 2,579, bank receivables are by far the highest. They are followed by telecommunications debt amounting to 533 Euro. Receivables under public law amount to EUR

406. The typical claim of collection companies or lawyers is 351 Euro. With an amount of 329 Euro creditors entitled to maintenance and other private creditors remain just behind.



THE MOST COMMON CLAIMS ARE THOSE OF PUBLIC-SECTOR CREDITORS.

Of the 119,360 claims for 2018 in the dataset, 20,886, i.e. about 17 percent, belong to this group. 14,419 or 12 percent of the receivables, respectively, are claimed by telecommunications companies, almost as many are claimed by collec-

tion companies or lawyers (14,253). Other important creditor groups in terms of frequency are mail order companies, landlords and utilities, which each account for just below ten percent of receivables in terms of number.

OVER-INDEBTEDNESS PROFILE: THE PROPORTION OF 25-45 YEAR OLD PERSONS IN THE POPULATION OF OVER-INDEBTED PERSONS TAKING ADVICE IS TWICE AS HIGH AS THEIR PROPORTION IN THE TOTAL POPULATION.

The proportion of 25 to 45-year-old persons among debtors using counselling is approximately twice as high as their proportion in the total population. The proportion of individuals below 25 years in the population of over-indebted persons taking advice exceeds their proportion in the total population by one fifth. 45- to 60-year-old persons have a factor of about

one, which means that they are to be found just as frequently among over-indebted persons seeking counselling as among the total population. Those above 60, on the other hand, are clearly under-represented with their proportion in the population of over-indebted persons seeking counselling being only 25 percent higher than their proportion in the total population.

Research objective

The annual *iff* over-indebtedness report is an annual national survey of over-indebted households in Germany that have sought help from debt advice organisations. The objective of the research is to provide robust data for stakeholder groups in politics, government and debt counselling, and for affected households and suppliers of financial services, in order to identify consensual solutions to the problem of over-indebtedness and to mitigate its detrimental consequences.

Research design

The *iff* over-indebtedness report has been published since 2006 and is produced by a team of sociologists, lawyers and economists. More than 120,000 households provided the data for *iff*'s 2019 over-indebtedness report. Those households received debt counselling between 2006 and 2018. Anonymised data gathered from 44 debt counselling centres located in 15 federal states of Germany ("Bundesländer") were evaluated. The data were processed, and they were documented, summarised and prepared for statistical analysis in debt advice centres in the course of the advisory process. This was done using CAWIN, the debt advice software produced by *iff*. Most over-indebted households analysed were not self-employed; less than one in ten cases of over-indebtedness were related to failed self-employment

What is debt, and how is over-indebtedness defined?

For the purposes of this report, debt and payment obligation refer to the same thing. These commitments are not only normal but desirable in modern society, as they enable investment for the future which would otherwise not be possible. Indebtedness does not only arise from monetary loans. It may also result from long-term continuing obligations and financial commitments such as rent or telecommunications contracts. Over-indebtedness can arise from a normal state of indebtedness when a crisis occurs.

Relative over-indebtedness is a term used to describe situations where individuals are no longer in a position to repay their debts within a reasonable period of time and are unable to make payments from existing assets or income without putting at risk their basic living standards. Absolute over-indebtedness (or revealed over-indebtedness) refers to situations in which the "hard signs" of over-indebtedness are apparent. This may include arrears in payments, credit default notices, loan cancellations, bank account closure and enforcement measures such as a warrant for the disclosure of assets and the initiation of insolvency procedures.



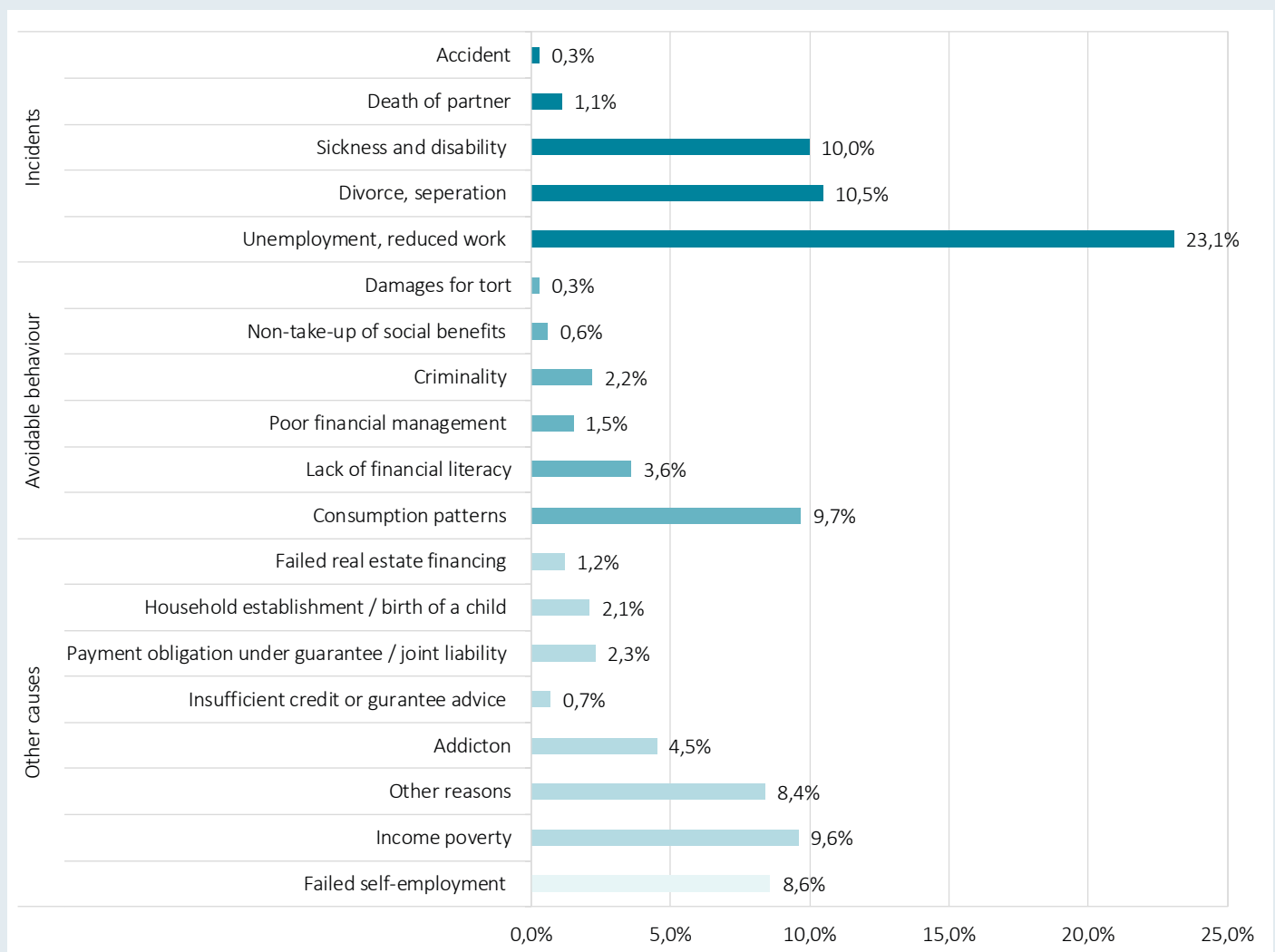
TRIGGERS OF OVER-INDEBTEDNESS

Figure 1 shows the percent of main triggers of over-indebtedness as quoted by debt counsellors in 2018. The triggers can be classified into “events”, “avoidable behaviour”, “other causes” and “failed self-employment”.

“Events” include over-indebtedness triggers that are usually unavoidable or difficult to avoid. Among them are unemployment, divorce or illness. In total these main triggers amount to 44.9 percent thus accounting for the largest share. Only 17.6 percent of the triggers can be attributed to “avoidable behaviour” in the narrow sense. Among them are irrational

consumer behaviour (9.7 percent), a lack of general financial literacy (3.6 percent), inefficient housekeeping (1.5 percent) and delinquency (2.2 percent). For self-employed debtors, however, external factors such as the structure of social insurance, for example, play a pivotal role. In 8.6 percent of all cases, this was their main cause of over-indebtedness.

Figure 1: The “Big Six” reasons for over-indebtedness 2018



Source: CAWIN-Data; presentation: iff, Number of evaluable data for new consulting entrants 2018: 5.500.



Six triggers, the so-called „Big Six“, regularly stand out due to their importance. In 2018, they accounted for more than 70 percent of over-indebtedness triggers. Their development over time is shown in Figure 2.

Compared to the previous year, unemployment has clearly lost 2.3 percentage points in importance. In 2018, however, it remains to be the most important trigger for over-indebtedness amounting to 23.1 percent. Apart from this last year's decline, the significance of unemployment as a trigger has remained unaffected by the now 10-year economic upswing in Germany, notwithstanding the fact that the unemployment rate fell significantly from 7.1 percent to 5.2 percent over the same period (see also section).¹

At 10.5 percent divorce and severance lost some of their significance as a trigger for over-indebtedness compared to the previous year (2018: 10.9 percent). In fact these triggers have been continuously declining for some years now though at a low annual rate. In the same period, the number of divorces per thousand inhabitants has fallen by a comparable amount from 2.3 to 1.9 percent.²

Most recently, illness lost a few tenth of a percent compared to the previous year (previous year: 10.4 percent). Since

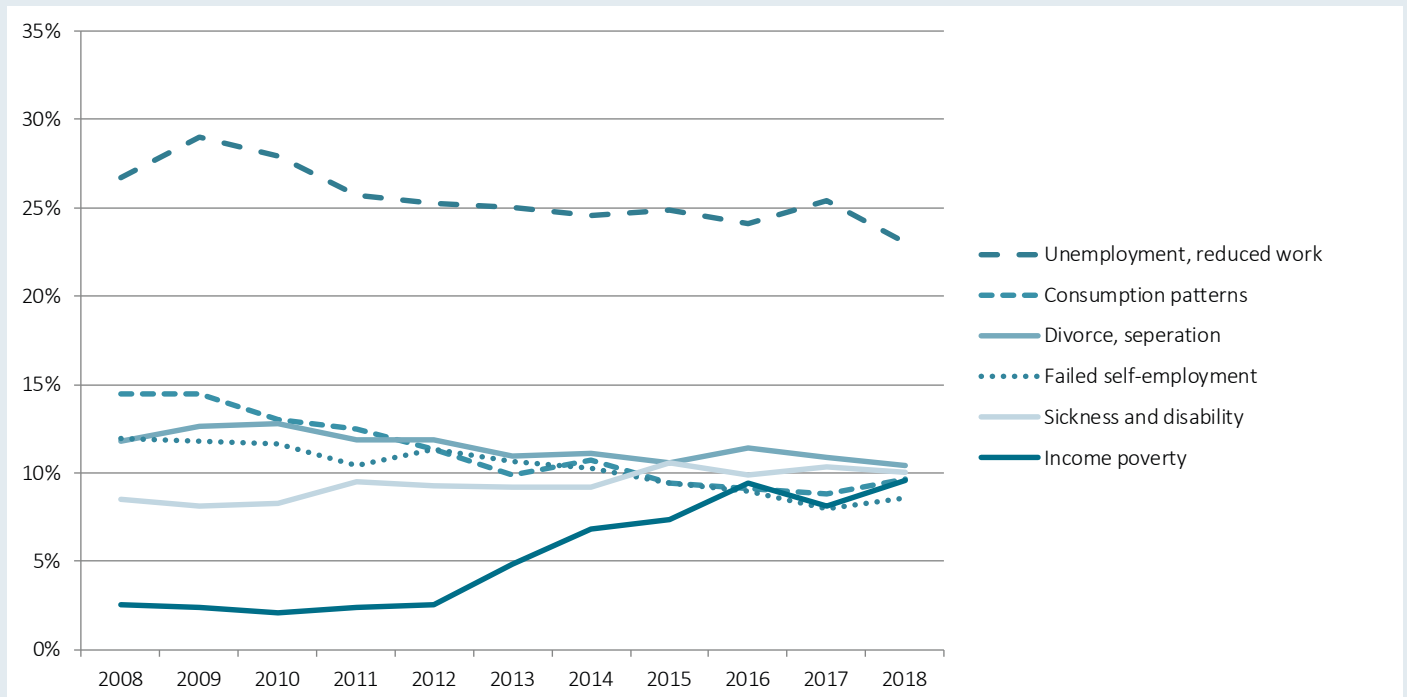
2009, however, the importance of illness as a trigger for over-indebtedness has risen from 8 to more than 10 percentage points. This development seems to have come to an end, at least for the time being.

In 2019, the importance of income poverty rose significantly to 9.6 percentage points. This increase compensates for the slump in the share in 2017. Until 2016 income poverty had been the most dynamically developing trigger. By then it had more than quintupled from 2010 onwards. By comparison, the poverty rate in Germany has risen considerably less sharply since 2008 from 15.1 to 16.2 (2017, most recent figure).³

The proportion of advice-seeking people for whom failed self-employment led to over-indebtedness rose slightly in 2018 (8.6 percent) compared to the previous year (2017: 8.0 percent). However, looking at the development over the past 10 years, we observe no significant change in this respect.⁴

The proportion of over-indebted people stating irrational consumer behaviour as the main trigger was 9.7 percent in 2018 representing a noticeable leap of 0.8 percent points compared to the previous year. Compared to 2008, when the percentage rate amounted to 14.5%, we observe a significant decline.

Figure 2: „Big Six“ triggers of over-indebtedness



Source: CAWIN-Data; presentation: iff, 2018: N=5.500.

¹ Bundesagentur für Arbeit 2019.

² Statistisches Bundesamt [Destatis] (2019a) and Destatis (2018) (current available data), own calculations.

³ Destatis (2019b).

⁴ Statistisches Bundesamt (2018).

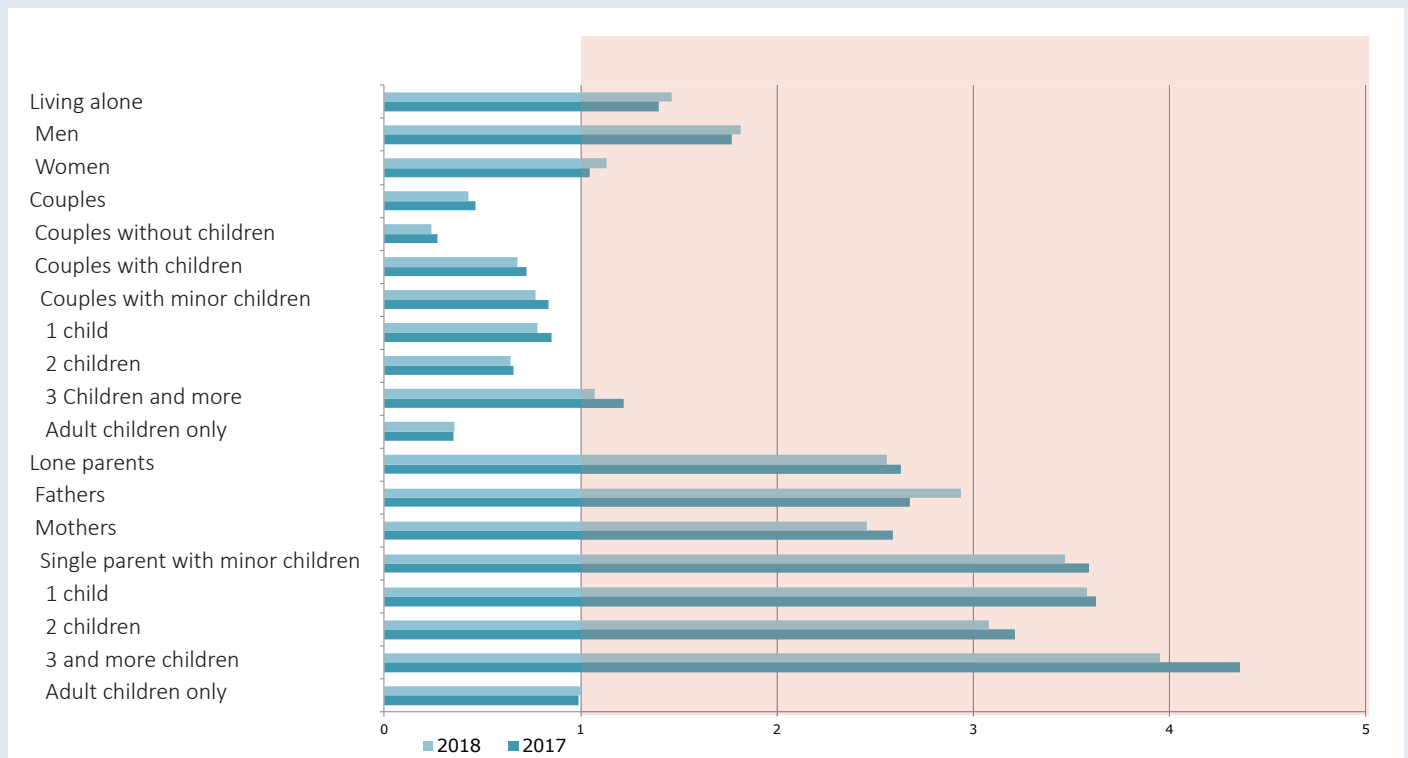


HOUSEHOLDS

Singles constitute the largest group (61.2 percent), the majority of whom are male. Only around 21.6 percent of those seeking advice live in a partnership, with the majority having children (13.7 percent). 16 percent of households seeking advice are single parents, most of whom are mothers (12.9 percent).

Figure 3 reveals the affected persons index by household type which shows the respective group's fraction from the total population. The group of single parents with under-age children is over-represented among the over-indebted most clearly in comparison with the total population. Single parents with three or more children thus achieve an affectedness index of 3.9.

Figure 3: Impact indices 2017 and 2018



Source: CAWIN-Data; presentation: iff, Number of evaluable data for new consulting entrants 2018: 5.500.

OVER-INDEBTEDNESS AND POVERTY

Taking the current definition of poverty, according to which 60 percent of the median of the population's equivalent income is considered as the schedule to poverty (1,096 Euro in 2017), about two thirds of those seeking advice must be considered as poor.

The per capita income of debtors seeking advice rose from 724 Euro in 2008 to 900 Euro in 2018 (Figure 4, medians).

However, only a small part of this 24 percentage increase has brought about a genuine improvement in their living situation. Taking the general price level development into account, we are left with an increase of only ten percent (Figure 5), which means that per capita incomes have increased by 11 Euro only.



Figure 4: Per capita income and poverty threshold over time

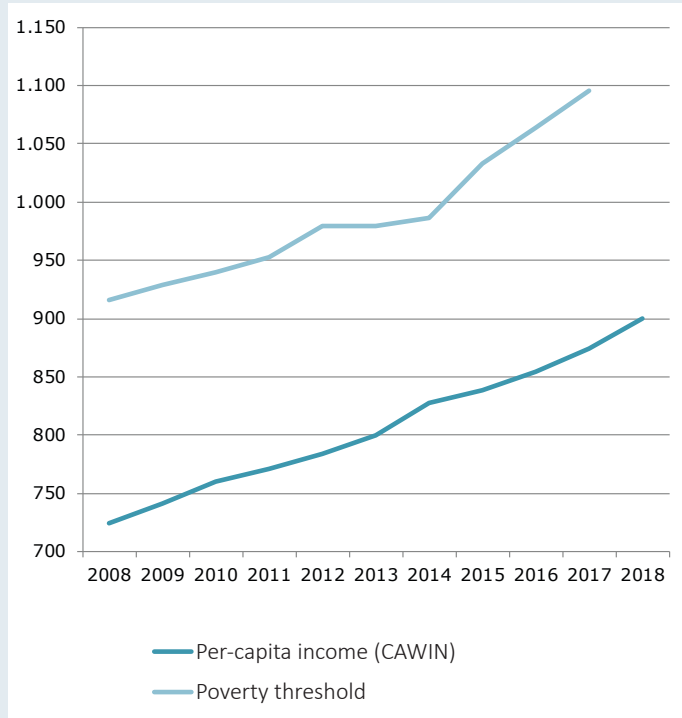
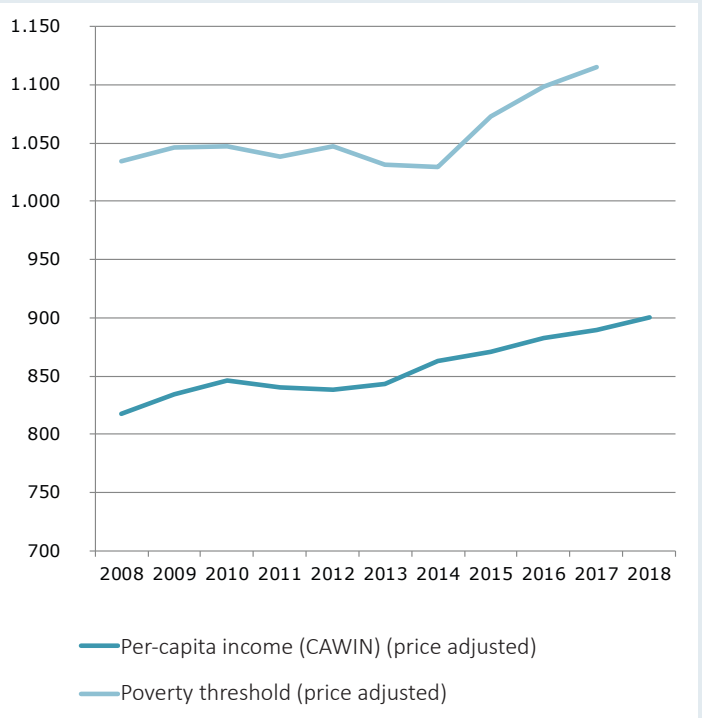


Figure 5: Per capita income and poverty threshold over time (price adjusted)



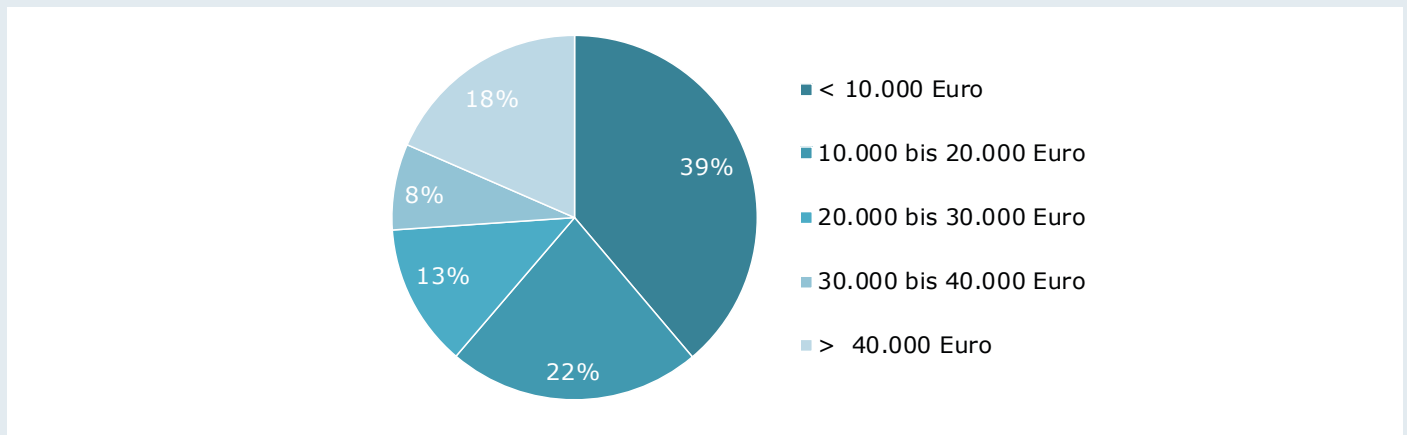
Source: CAWIN-Data, 2018: N=8.154. Statistisches Bundesamt (Destatis) 2019b and Statistisches Bundesamt (Destatis) 2019c, presentation: iff.

DEBT SIZE AND COMPOSITION ACCORDING TO CREDITORS

Figure 6 reveals the size and composition of debt at the outset of the counselling process for the year 2018. 61 percent of over-indebted people have debts of less than 20,000 Euro.

The typical amount of debt defined by the median⁵ is 14,255 Euro. Only 18 percent of those seeking advice have more than 40,000 Euro in debt.

Figure 6: Distribution of debt



Source: CAWIN-Data; presentation: iff, N=8.752.

⁵ Due to the group persons seeking advice with high or very high debt volumes, the average value would deliver distorted results by overestimating the typical size of debt.

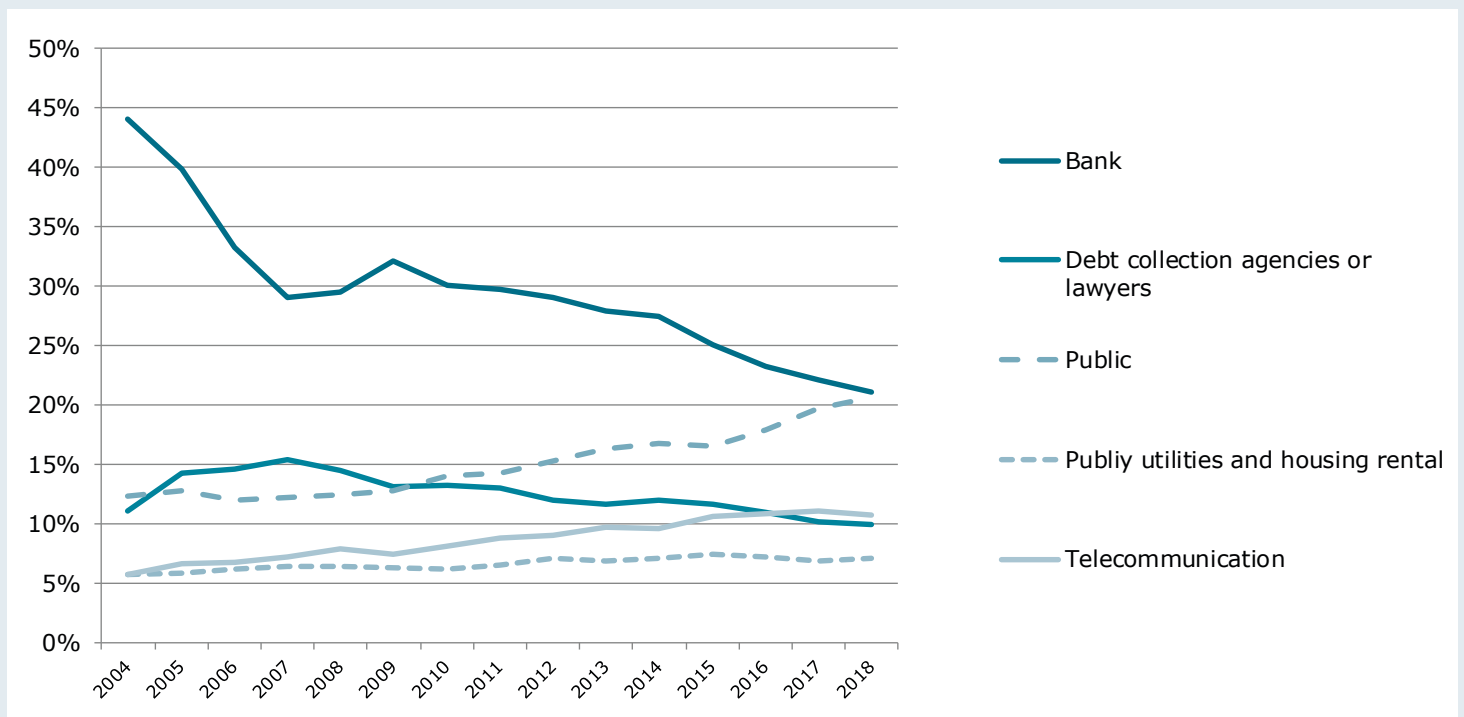


Figure 7 reveals how the shares of the five most important groups of creditors have developed over time. Since 2009, the importance of banks has declined sharply. Since then their share has fallen from 32.1 percent to 21.1 percent. By contrast, the proportion of public-sector creditors' debts has been rising steadily and has almost doubled over the same period. Telecommunications debts have taken a similar course, albeit their increase has been somewhat weaker compared to claims under public law. Moreover, between

2017 to 2018, they declined slightly in importance, by dropping from 11.1 percent to 10.7 percent.

The share of lessors and utilities have remained unchanged at just below seven percent for several years. The share of debt collection companies and lawyers has recently fallen marginally from 10.1 to 9.9 percent. Since 2007, this group of creditors has thus lost a total of around five percentage points.

Figure 7: Development of composition of creditors (percent)



Source: CAWIN-Data set; Presentation: iff. For reasons of clarity the figure considers the five most important types of creditors only. 2018: N=119.360. Instead of the fifth largest group „other commercial creditors“, the group of lessors and public utilities are presented, due to their significance for living expenses.



The institute for financial services e. V.

The institute for financial services e. V. (iff) is an independent, non-profit association whose registered office is in Hamburg. It has conducted interdisciplinary research and consultancy in the area of sustainable financial services since 1987. It works for national and European government institutions, consumer organisations, debt advice agencies, foundations and providers of financial services. The Institute also prepares calculations and expert opinions for the courts, small and medium-sized enterprises and private entities. iff also regularly prepares expert opinions and statements on financial services for federal ministries, the European Commission and the European Parliament. The Institute is a founder member of the *Initiative European Coalition for Responsible Credit (ECRC)*.

More informations under: www.iff-hamburg.de

„Deutschland im Plus“ Foundation

The non-profit foundation „Deutschland im Plus“ (founded in 2007 by TeamBank AG) operates independently and is committed to education and aid projects for the prevention of over-indebtedness. The Foundation supports the preparation of the annual report on over-indebtedness. It supports debt advice agencies and provides financial education for schools. The mission of the Foundation is to focus public attention on the prevention of over-indebtedness and to raise awareness of responsible borrowing.

More informations under: www.deutschland-im-plus.de

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Further information on this research

The full version of the 2019 iff Over-indebtedness Report by Dirk Ulbricht and Sally Peteers is available for a nominal fee in print format from the institute for financial services e. V., Grindelallee 100, 20146 Hamburg (ISBN 978-3-00-058362-9). The report is available for download in electronic form at www.iff-ueberschuldungsreport.de and www.deutschland-im-plus.de. Further information on over-indebtedness and debt prevention is also available on those web sites.

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